

**REPORT OF THE AUDIT OF THE
BRECKINRIDGE COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2004**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE (502) 573-0050
FACSIMILE (502) 573-0067**



C R I T L U A L L E N
A U D I T O R O F P U B L I C A C C O U N T S

To the People of Kentucky

Honorable Ernie Fletcher, Governor

John R. Farris, Secretary

Finance and Administration Cabinet

Honorable George E. Monarch, III, Breckinridge County Judge/Executive

Members of the Breckinridge County Fiscal Court

The enclosed report prepared by Tichenor & Associates, LLP, Certified Public Accountant, presents the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Breckinridge County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements.

We engaged Tichenor & Associates, LLP to perform the audit of these financial statements. We worked closely with the firm during our report review process; Tichenor & Associates, LLP evaluated the Breckinridge County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE BRECKINRIDGE COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2004**

Tichenor & Associates, LLP has completed the audit of the Breckinridge County Fiscal Court for fiscal year ended June 30, 2004. We have issued an unqualified opinion, based on our audit and the reports of the other auditors, on the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information.

Financial Condition:

The fiscal court had net assets of \$3,874,795 as of June 30, 2004. The fiscal court had unrestricted net assets of \$968,470 in its governmental activities as of June 30, 2004, with total net assets of \$3,869,185. In its enterprise fund, total net cash and cash equivalents were \$13,374 with total net assets of \$5,610.

Debt Obligations:

Financing Obligations totaled \$5,264,000 as of June 30, 2004. Future principal and interest payments of \$9,002,197 are needed to meet these obligations.

Deposits:

On August 31, 2003, \$280,269 of the fiscal courts deposits were uninsured and under collateralized by bank securities or bonds.

Report Comments:

- The Fiscal Court Should Issue Pre-numbered Receipts For Admittance To The County Pool For Proper Reporting Of Cash Received
- The Fiscal Court Lacks Adequate Segregation Of Duties
- Annually, The Jailer Should Report To The County Treasurer On The Canteen Account
- The Fiscal Court Should Index And File Minutes Of The Fiscal Court In The Minutes Book, As Required Of The Fiscal Court Clerk
- The Breckinridge County Housing Authority's Budget Was Not Approved By The Breckinridge County Fiscal Court (County)

CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT	1
BRECKINRIDGE COUNTY OFFICIALS	3
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS.....	7
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	10
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS.....	15
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	19
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	23
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS	27
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS	31
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS.....	35
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS	39
NOTES TO FINANCIAL STATEMENTS.....	41
BUDGETARY COMPARISON SCHEDULES	53
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION.....	57
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.....	61
COMMENTS AND RECOMMENDATIONS	65
APPENDIX A: CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM	

TICHENOR & ASSOCIATES, LLP
CERTIFIED PUBLIC ACCOUNTANTS and MANAGEMENT CONSULTANTS

304 MIDDLETOWN PARK PLACE SUITE C
LOUISVILLE, KY 40243

BUSINESS: (502) 245-0775

FAX: (502) 245-0725

E-MAIL: wtichenor@tichenorassociates.com

To the People of Kentucky

Honorable Ernie Fletcher, Governor

John R. Farris, Secretary

Finance and Administration Cabinet

Honorable George E. Monarch, III, Breckinridge County Judge/Executive

Members of the Breckinridge County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Breckinridge County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Breckinridge County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We did not audit the financial statements of the Breckinridge County Housing Authority, a major enterprise fund. The financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Breckinridge County Housing Authority, is based on the report of the other auditors.

The Breckinridge County Housing Authority represents 52 percent of the assets, and 81 percent of the revenues of the business-type activities opinion unit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

As described in Note 1, Breckinridge County Fiscal Court has adopted the modified cash basis of accounting to present the financial statements of the governmental activities, certain business-type activities, major governmental funds: General Fund, Road Fund, Jail Fund, and LGEA Fund, and one of the major enterprise funds: Jail Canteen Fund, while management of the Breckinridge County Housing Authority, a major enterprise fund, has adopted the accrual basis of accounting. The financial statements of the business-type activities and the Breckinridge County Housing Authority, because of two different bases of accounting presented, include certain accruals required by accounting principles generally accepted in the United States of America that are not required under the modified cash basis. The amounts by which these accruals affect the financial statements are not reasonably determinable.

To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable George E. Monarch, III, Breckinridge County Judge/Executive
Members of the Breckinridge County Fiscal Court

In our opinion, except for the effects, if any, of the matters described in the preceding paragraph, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, and the Breckinridge County Housing Authority, a major enterprise fund of Breckinridge County, Kentucky, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the General Fund, the Road Fund, the Jail Fund, the LGEA Fund, the Jail Canteen Fund and the aggregate remaining fund information of Breckinridge County, Kentucky, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The County has chosen not to present the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements.

The Budgetary Comparison information is not a required part of the basic financial statements but is supplementary information required GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated June 13, 2006 on our consideration of Breckinridge County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

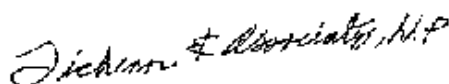
Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Fiscal Court Should Issue Pre-numbered Receipts For Admittance To The County Pool For Proper Reporting Of Cash Received
- The Fiscal Court Lacks Adequate Segregation Of Duties
- Annually, The Jailer Should Report To The County Treasurer On The Canteen Account
- The Fiscal Court Should Index And File Minutes Of The Fiscal Court In The Minutes Book, As Required Of The Fiscal Court Clerk

To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable George E. Monarch, III, Breckinridge County Judge/Executive
Members of the Breckinridge County Fiscal Court

- The Breckinridge County Housing Authority's Budget Was Not Approved By The Breckinridge County Fiscal Court (County).

Respectfully submitted,

A handwritten signature in cursive script that reads "Tichenor & Associates, LLP".

Tichenor & Associates, LLP

Audit fieldwork completed -
June 13, 2006

BRECKINRIDGE COUNTY OFFICIALS

For The Year Ended June 30, 2004

Fiscal Court Members:

George E. Monarch, III	County Judge/Executive
James Henning	Magistrate
Larry Moad	Magistrate
Tommy Compton	Magistrate
Billy Johnson	Magistrate
Darrell Fentress	Magistrate
Joe O'Donoghue	Magistrate

Other Elected Officials:

Bruce T. Butler	County Attorney
Allen Shrewsberry	Jailer
Charles A. Wilson	County Clerk
Connie Brumfield	Circuit Court Clerk
Todd Pate	Sheriff
Dana Bland	Property Valuation Administrator
Bob Rhodes	Coroner

Appointed Personnel:

Randi Flood	County Treasurer
Lisa Hoskins	Finance Officer
Sherrie Ashley	Payroll Officer
Dennis Henning	Road Supervisor
Kay Brown	911 Administrator
Karen Shrewsberry	Jail Administrative Assistant

THIS PAGE LEFT BLANK INTENTIONALLY

BRECKINRIDGE COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

BRECKINRIDGE COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 968,470	\$ 13,374	\$ 981,844
Total Current Assets	968,470	13,374	981,844
Noncurrent Assets:			
Assets Held for Resale	166,404		166,404
Capital Assets - Net of Accumulated Depreciation:			
Land and Land Improvements	220,000		220,000
Buildings	7,225,929		7,225,929
Machinery and Equipment	497,250	5,163	502,413
Vehicles	158,913	9,092	168,005
Infrastructure	62,623		62,623
Total Noncurrent Assets	8,331,119	14,255	8,345,374
Total Assets	9,299,589	27,629	9,327,218
LIABILITIES			
Current Liabilities:			
Financing Obligations	153,000		153,000
Accounts Payable - HUD		22,019	22,019
Total Current Liabilities	153,000	22,019	175,019
Noncurrent Liabilities:			
Financing Obligations Payable	5,111,000		5,111,000
Total Noncurrent Liabilities	5,111,000		5,111,000
Total Liabilities	5,264,000	22,019	5,286,019
NET ASSETS			
Invested in Capital Assets,			
Net of Related Debt	3,067,119	23,461	3,059,355
Unrestricted	968,470	(17,851)	981,844
Total Net Assets	\$ 4,035,589	\$ 5,610	\$ 4,041,199

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

BRECKINRIDGE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

BRECKINRIDGE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

Functions/Programs Reporting Entity	Program Revenues Received		
	Expenses	Charges for Services	Operating Grants and Contributions
Primary Government:			
Governmental Activities:			
General Government	\$ 450,240	\$ 16,819	\$ 617,478
Protection to Persons and Property	1,455,206	1,257,261	
General Health and Sanitation	52,261		
Social Services	39,804		
Recreation and Culture	60,958		
Roads	1,331,040		1,771,154
Bus Services	61,537		
Interest on Debt	322,338		
Capital Projects	531,500		
Administration	831,987		
Total Governmental Activities	<u>5,136,871</u>	<u>1,274,080</u>	<u>2,388,632</u>
Business-type Activities:			
Jail Canteen	190,443	135,161	
Breckinridge County Housing Authority	557,651		558,941
Total Business-type Activities	<u>748,094</u>	<u>135,161</u>	<u>558,941</u>
Total Primary Government	<u>\$ 5,884,965</u>	<u>\$ 1,409,241</u>	<u>\$ 2,947,573</u>

General Revenues:

Taxes:

Real Property Taxes
Personal Property Taxes
Motor Vehicle Taxes
LGEA Mineral Taxes
Other Taxes

Excess Fees

Licenses and Permits

Rent

Fiscal Court Filing Fee

Interest Income

Miscellaneous Revenues

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

BRECKINRIDGE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2004
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ 184,057	\$	\$ 184,057
(197,945)		(197,945)
(52,261)		(52,261)
(39,804)		(39,804)
(60,958)		(60,958)
440,114		440,114
(61,537)		(61,537)
(322,338)		(322,338)
(531,500)		(531,500)
(831,987)		(831,987)
(1,474,159)		(1,474,159)
	(55,282)	(55,282)
	1,290	1,290
	(53,992)	(53,992)
(1,474,159)	(53,992)	(1,528,151)
537,000		537,000
34,735		34,735
137,092		137,092
32,735		32,735
1,116,527		1,116,527
22,501		22,501
4,720		4,720
85,805		85,805
22,595		22,595
9,233	634	9,867
279,086		279,086
2,282,029	634	2,282,663
807,870	(53,358)	754,512
3,227,719	58,968	3,286,687
\$ 4,035,589	\$ 5,610	\$ 4,041,199

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

BRECKINRIDGE COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2004

BRECKINRIDGE COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2004

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>LGEA Fund</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and Cash Equivalents	\$ 555,622	\$ 378,911	\$ 8,479	\$ 25,458	\$ 968,470
Total assets	<u>\$ 555,622</u>	<u>\$ 378,911</u>	<u>\$ 8,479</u>	<u>\$ 25,458</u>	<u>\$ 968,470</u>
FUND BALANCES					
Unreserved:					
General Fund	\$ 555,622	\$	\$	\$	\$ 555,622
Special Revenue Fund		378,911	8,479	25,458	412,848
Total Fund Balances	<u>\$ 555,622</u>	<u>\$ 378,911</u>	<u>\$ 8,479</u>	<u>\$ 25,458</u>	<u>\$ 968,470</u>

Reconciliation of Balance Sheet - Governmental Funds to Statement of Net Assets:

Total Fund Balances	\$ 968,470
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Assets Held For Resale Are Not Financial Resources And Therefore Are Not Reported In The Funds.	
Assets Held For Resale	166,404
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	
Capital Assets	10,655,566
Accumulated Depreciation	(2,490,851)
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Financing Obligations	<u>(5,264,000)</u>
Net Assets Of Governmental Activities	<u>\$ 4,035,589</u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

BRECKINRIDGE COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

BRECKINRIDGE COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>LGEA Fund</u>	<u>Total Governmental Funds</u>
REVENUES					
Taxes	\$ 1,812,479	\$ -	\$ -	\$ -	\$ 1,812,479
In Lieu Tax Payments	12,754				12,754
Excess Fees	22,501				22,501
Licenses and Permits	4,719				4,719
Intergovernmental	739,122	1,771,154	1,134,118	32,735	3,677,129
Charges for Services	16,819		123,143		139,962
Miscellaneous	98,726	1,329	165,902	7	265,964
Interest	3,385	4,722	755	372	9,234
Total Revenues	<u>2,710,505</u>	<u>1,777,205</u>	<u>1,423,918</u>	<u>33,114</u>	<u>5,944,742</u>
EXPENDITURES					
General Government	410,156				410,156
Protection to Persons and Property	266,388		1,130,746	43,412	1,440,546
General Health and Sanitation	52,261				52,261
Social Services	34,357			5,447	39,804
Recreation and Culture	53,594				53,594
Roads	42,500	1,473,722			1,516,222
Bus Services	61,537				61,537
Debt Service	24,034		444,304		468,338
Capital Projects	500,000	31,500			531,500
Administration	502,964	119,643	209,380		831,987
Total Expenditures	<u>1,947,791</u>	<u>1,624,865</u>	<u>1,784,430</u>	<u>48,859</u>	<u>5,405,945</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>762,714</u>	<u>152,340</u>	<u>(360,512)</u>	<u>(15,745)</u>	<u>538,797</u>
Other Financing Sources (Uses)					
Proceeds From Sale Of Vehicle		150,800			150,800
Transfers From Other Funds	200,000	150,000	394,244		744,244
Transfers To Other Funds	(544,244)	(100,000)	(100,000)		(744,244)
Total Other Financing Sources (Uses)	<u>(344,244)</u>	<u>200,800</u>	<u>294,244</u>	<u>-</u>	<u>150,800</u>
Net Change in Fund Balances	418,470	353,140	(66,268)	(15,745)	689,597
Fund Balances - Beginning	137,152	25,771	74,747	41,203	278,873
Fund Balances - Ending	<u>\$ 555,622</u>	<u>\$ 378,911</u>	<u>\$ 8,479</u>	<u>\$ 25,458</u>	<u>\$ 968,470</u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

**BRECKINRIDGE COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2004

BRECKINRIDGE COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$ 689,597
Governmental Funds report assets held for resale as expenditures. However, these expenditures are not reported in the Statement of Activities.	
Assets Held for Resale	166,404
Assets Held for Resale, Disposed of	(163,310)
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.	
Capital Outlay	137,063
Depreciation Expense	(167,884)
Financing obligation principal payments are expensed in the Governmental Funds as a use of current financial resources. These transactions, however, have no effect on net assets.	
Financing Obligations	<u>146,000</u>
Change in Net Assets of Governmental Activities	<u><u>\$ 807,870</u></u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

BRECKINRIDGE COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2004

BRECKINRIDGE COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2004

	Business-Type Activities - Enterprise Fund		
	Jail Canteen Fund	Breckinridge County Housing Authority	Totals
Assets			
Current Assets:			
Cash and Cash Equivalents	\$ 4,168	\$ 9,206	\$ 13,374
Total Current Assets	4,168	9,206	13,374
Noncurrent Assets:			
Capital Assets:			
Machinery & Equipment		5,163	5,163
Vehicles	9,092		9,092
Total Noncurrent Assets	9,092	5,163	14,255
Total Assets	13,260	14,369	27,629
Liabilities			
Accounts Payable - HUD		22,019	22,019
Total Liabilities	-	22,019	22,019
Net Assets			
Invested in Capital Assets,			
Net of Related Debt	\$ 9,092	\$ 14,369	\$ 23,461
Unrestricted	4,168	(22,019)	(17,851)
Total Net Assets	\$ 13,260	\$ (7,650)	\$ 5,610

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

BRECKINRIDGE COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

BRECKINRIDGE COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	Business-Type Activities		
	Enterprise Funds		
	Jail Canteen Fund	Breckinridge County Housing Authority	Totals
Operating Revenues			
Canteen Receipts	\$ 135,161	\$	\$ 135,161
HUD Operating Grants		558,941	558,941
Total Operating Revenues	135,161	558,941	694,102
Operating Expenses			
Administrative Salaries	46,090	57,200	103,290
Cost of Sales	121,856		121,856
Depreciation		2,881	2,881
Employee Benefits		16,386	16,386
Housing Assistance Payments		463,466	463,466
Other Operating Expenses	20,785	17,718	38,503
Miscellaneous	1,712		1,712
Total Operating Expenses	190,443	557,651	748,094
Operating Income (Loss)	(55,282)	1,290	(53,992)
Nonoperating Revenues (Expenses)			
Interest Income		634	634
Change In Net Assets	(55,282)	1,924	(53,358)
Total Net Assets - Beginning (Restated)	68,542	(9,574)	58,968
Total Net Assets - Ending	\$ 13,260	\$ (7,650)	\$ 5,610

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

BRECKINRIDGE COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS
For The Year Ended June 30, 2004

BRECKINRIDGE COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	Business-Type Activities		
	Enterprise Fund		
	Jail Canteen Fund	Breckinridge County Housing Authority	Totals
Cash Flows From Operating Activities			
Receipts From Customers	\$ 135,161	\$	\$ 135,161
HUD Operating Grants		531,953	531,953
Cost of Sales	(121,856)		(121,856)
Administrative Salaries	(46,090)	(57,200)	(103,290)
Employee Benefits		(16,386)	(16,386)
Housing Assistance Payments		(463,466)	(463,466)
Other Operating Expenses	(20,785)	(17,718)	(38,503)
Miscellaneous	(1,712)		(1,712)
Net Cash Provided By Operating Activities	(55,282)	(22,817)	(78,099)
Cash Flows From Investing Activities			
Interest Revenue		634	634
Net Cash Provided By Investing Activities		634	634
Cash Flows From Financing Activities			
Purchases of Capital Assets		(4,696)	(4,696)
Net Cash Provided By Financing Activities		(4,696)	(4,696)
Net Increase (Decrease) in Cash and Cash Equivalents	(55,282)	(26,879)	(82,161)
Cash and Cash Equivalents - July 1, 2003	59,450	36,085	95,535
Cash and Cash Equivalents - June 30, 2004	\$ 4,168	\$ 9,206	\$ 13,374
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities			
Operating Income (Loss)	\$ (55,282)	\$ 1,290	\$ (53,992)
Adjustments to Reconcile Operating Income To Net Cash Provided (Used) By Operating Activities			
Depreciation Expense		2,881	2,881
Changes In:			
Accounts Receivable		20,232	20,232
Accounts Payable - HUD		(46,924)	(46,924)
Accounts Payable - Trade		(296)	(296)
Total Cash Provided By Operating Activities	\$ (55,282)	\$ (22,817)	\$ (78,099)

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

BRECKINRIDGE COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

BRECKINRIDGE COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

	<u>Agency Fund</u>
	<u>Inmate</u>
	<u>Account</u>
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 3,681
Total Assets	<u> 3,681</u>
Liabilities	
Amounts Held In Custody For Others	3,681
Total Liabilities	<u>\$ 3,681</u>

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

NOTE 1.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.....	25
NOTE 2.	DEPOSITS.....	30
NOTE 3.	EMPLOYEE RETIREMENT SYSTEM.....	30
NOTE 4.	CAPITAL ASSETS	31
NOTE 5.	FINANCING OBLIGATIONS	32
NOTE 6.	OPERATING LEASE	33
NOTE 7.	INSURANCE	34
NOTE 8.	RELATED PARTY TRANSACTIONS	34
NOTE 9.	SUBSEQUENT EVENT.....	34
NOTE 10.	CHANGES IN ACCOUNTING PRINCIPLES AND PRIOR PERIOD ADJUSTMENTS.....	34

**BRECKINRIDGE COUNTY
NOTES TO FINANCIAL STATEMENTS**

June 30, 2004

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government wide and fund financial statements in accordance with the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statement.

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and their corresponding depreciation expenses are included on the Statement of Activities.

B. Reporting Entity

The financial statements of Breckinridge County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the County is financially accountable or their exclusion would cause the County's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. The County has no discretely presented component units.

Blended Component Unit

The following legally separate organization provides its services exclusively to the primary government and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

Breckinridge County Housing Authority

Breckinridge County Housing Authority is a legally separate entity established to administer a housing program for low-income families. The Housing Authority's governing body consists entirely of fiscal court members. Financial information for the Breckinridge County Housing Authority is blended with Breckinridge County's financial statements.

BRECKINRIDGE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Breckinridge County Constitutional Elected Officials

Kentucky constitution provides for election of the officials listed below from the geographic area constituting Breckinridge County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

Additional - Breckinridge County Constitutional Elected Officials

- County Attorney
- County Jailer
- County Clerk
- Circuit Court Clerk
- County Sheriff
- Property Valuation Administrator
- County Coroner

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

BRECKINRIDGE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, other counties for housing prisoners and transfers from the General Fund. The Governor's Office for Local Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Assistance Fund – This fund is to account for mineral receipts. Expenditures are limited to certain categories excluding most costs associated with general government operations. The Governor's Office for Local Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the County's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements on Interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

BRECKINRIDGE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Proprietary Funds (Continued)

The primary government reports the following proprietary funds:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

Breckinridge County Housing Authority - The Housing Authority has the right to buy, sell, lease, and mortgage property in its own name. However, Fiscal Court members also serve as the Housing Authority's Board of Directors; therefore, Fiscal Court is able to impose its will on the Housing Authority. Fiscal Court approves and modifies the Housing Authority's budget as part of the County's budget. In addition, Fiscal Court has the ability to appoint, hire, reassign, or dismiss those persons responsible for day-to-day operations. Financial information for the Breckinridge County Housing Authority is blended with Breckinridge County's financial statements. A complete copy of the audit report may be obtained from the Breckinridge County Housing Authority.

Fiduciary Funds

All fiduciary funds are reported using the economic resources measurement focus and the modified cash basis of accounting. Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. The County's agency fund is used to account for monies held by the County in the Inmate Account Fund for custodial purposes only. Unlike other funds, the agency fund reports assets and liabilities only; therefore, it has no measurement focus.

The primary government reports the following fiduciary fund:

Inmate Account Fund - This fund accounts for funds received from the inmates.

E. Cash and Cash Equivalents

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificate of deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

BRECKINRIDGE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets

Capital assets, which include land, land improvements, buildings, building improvements, infrastructure (roads and bridges) machinery, equipment, and intangibles that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 5,000	3-25
Vehicles	\$ 5,000	5-15
Infrastructure	\$ 20,000	2-40

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current year. The principal amount of the debt and interest is reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances, may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, such as debt service and encumbrances.

BRECKINRIDGE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

I. Legal Compliance - Budget

The Breckinridge County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

A formal budget is not adopted for the Jail Canteen Fund. The Governor's Office For Local Development does not require this fund to be budgeted.

Note 2. Deposits

The primary government and component units maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) in accordance with KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The county entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution's failure, the government's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240 (4). As of August 31, 2003, \$280,269 of the government's bank balance of \$808,389 was exposed to custodial credit risk as follows:

- Uncollateralized and uninsured - \$280,269

Note 3. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing multiple-employer defined benefit pension plan that covers all eligible full-time employees, and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provision are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

BRECKINRIDGE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 3. Employee Retirement System (Continued)

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 4. Capital Assets

Capital asset activity for the year ended June 30, 2004 was as follows:

Primary Government	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land & Land Improvements	\$ 220,000	\$	\$	\$ 220,000
Total Capital Assets Not Being Depreciated	220,000			220,000
Capital Assets, Being Depreciated:				
Buildings	9,211,550			9,211,550
Machinery & Equipment	845,053			845,053
Vehicles	241,900	68,746		310,646
Infrastructure		68,317		68,317
Total Capital Assets Being Depreciated	10,298,503	137,063		10,435,566
Less Accumulated Depreciation For:				
Buildings	(1,884,087)	(101,534)		(1,985,621)
Machinery & Equipment	(321,802)	(26,001)		(347,803)
Vehicles	(117,078)	(34,655)		(151,733)
Infrastructure		(5,694)		(5,694)
Total Accumulated Depreciation	(2,322,967)	(167,884)		(2,490,851)
Total Capital Assets, Being Depreciated, Net	7,975,536	(30,821)		7,944,715
Governmental Activities Capital Assets, Net	\$ 8,195,536	\$ (30,821)	\$	\$ 8,164,715

BRECKINRIDGE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 4. Capital Assets (Continued)

Business-Type Activities:

Capital Assets, Being Depreciated:								
Machinery & Equipment	\$	5,698	\$	4,696	\$		\$	10,394
Vehicles		13,185						13,185
Total Capital Assets Being Depreciated		18,883		4,696				23,579
Less Accumulated Depreciation For:								
Equipment		(2,350)		(2,881)				(5,231)
Vehicles		(2,974)		(1,119)				(4,093)
Total Accumulated Depreciation		(5,324)		(4,000)				(9,324)
Business-Type Activities Capital Assets, Net	\$	13,559	\$	696	\$		\$	14,255

Governmental Activities:

General Government	\$	40,084
Protection to Persons and Property		83,407
Recreation and Culture		7,364
Roads		37,029
Total Depreciation Expense - Governmental Activities	\$	167,884

Business-Type Activities

Jail Canteen	\$	1,119
Breckinridge County Housing Authority		2,881
Total Depreciation Expense - Business Activities	\$	4,000

Note 5. Financing Obligations

A. Courthouse Renovation

Breckinridge County entered into an agreement with Kentucky Association of Counties Leasing Trust (KACoLT) on January 6, 1994. A total of \$250,000 was awarded to Breckinridge County for courthouse renovation. The agreement calls for Breckinridge County to make annual principal payments and monthly interest payments at 4.621 percent. These payments are paid from the General Fund. The principal outstanding as of June 30, 2004, was \$144,000. Future principal and interest requirements are:

BRECKINRIDGE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 5. Financing Obligations (Continued)

A. Courthouse Renovation (Continued)

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Scheduled</u> <u>Interest</u>	<u>Scheduled</u> <u>Principal</u>
2005	\$ 7,752	\$ 13,000
2006	7,002	14,000
2007	6,195	15,000
2008	5,356	15,000
2009	4,088	16,000
2010-2013	<u>8,876</u>	<u>71,000</u>
Totals Outstanding June 30, 2004	<u>\$ 39,269</u>	<u>\$ 144,000</u>

B. Detention Facility

Breckinridge County entered into an agreement with Kentucky Association of Counties Leasing Trust (KACoLT) on February 26, 1998. A total of \$5,300,000 was awarded to Breckinridge County for construction of the Detention Facility. The agreement calls for Breckinridge County to make annual principal payments and monthly interest payments at 5.64 percent. On January 31, 2000, the lease was refinanced in the amount of \$5,500,000. The agreement calls for Breckinridge County to make annual principal payments and monthly interest payments at 5.3 percent. These payments are paid from the Jail Fund. The principal outstanding as of June 30, 2004, was \$5,120,000. Future principal and interest requirements are:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Scheduled</u> <u>Interest</u>	<u>Scheduled</u> <u>Principal</u>
2005	\$ 302,846	\$ 140,000
2006	293,963	147,000
2007	284,599	155,000
2008	274,751	163,000
2009	264,361	172,000
2010-2014	1,146,213	1,002,000
2015-2019	792,758	1,292,000
2020-2025	<u>339,437</u>	<u>2,049,000</u>
Totals Outstanding June 30, 2004	<u>\$ 3,698,928</u>	<u>\$ 5,120,000</u>

BRECKINRIDGE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 5. Financing Obligations (Continued)

C. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2004, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities:</u>					
Financing Obligations	<u>\$ 5,410,000</u>	<u>\$ -</u>	<u>\$ 146,000</u>	<u>\$ 5,264,000</u>	<u>\$ 153,000</u>

Note 6. Operating Lease

On September 10, 2001, the Fiscal Court entered into a lease agreement with Officeware for a copy machine. The rental agreement states that monthly payments of \$172 shall be made for a term of 48 months. During the fiscal year ended June 30, 2004, Breckinridge County paid \$2,064 on the lease. These payments are paid from the General Fund. As of June 30, 2004, future payments of \$2,752 are required by the lease.

Note 7. Insurance

For the fiscal year ended June 30, 2004, Breckinridge County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 8. Related Party Transactions

During fiscal year ended June 30, 2004, the fiscal court made expenditures to an auto parts store owned by the County Treasurer's father. The total of the expenditures to the auto parts store was \$11,002. These transactions do not appear to be in violation of the county's code of ethics.

Note 9. Subsequent Event

The Breckinridge County Housing Authority ceased operations on November 1, 2005. The Housing Authority in Madisonville, KY now handles the Breckinridge County area.

Note 10. Changes in Accounting Principles and Prior Period Adjustments

The county has implemented Governmental Accounting Standards Board (GASB) Statements 33, 34 and 37, as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements. The beginning net asset balance for the governmental-activities has been restated by \$2,948,864 due to capital assets and financing obligations previously omitted. The beginning net assets balance for business-type activities was \$58,968, an increase of \$9,092 due to capital assets previously not reported.

BRECKINRIDGE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2004

BRECKINRIDGE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2004

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,520,750	\$ 1,563,250	\$ 1,812,479	\$ 249,229
In Lieu Tax Payments	11,000	11,000	12,754	1,754
Excess Fees		16,000	22,501	6,501
Licenses and Permits	5,000	5,000	4,719	(281)
Intergovernmental Revenue	645,150	781,150	739,122	(42,028)
Charges for Services	31,900	31,900	16,819	(15,081)
Miscellaneous	27,000	27,000	98,726	71,726
Interest	10,000	10,000	3,385	(6,615)
Total Revenues	2,250,800	2,445,300	2,710,505	265,205
EXPENDITURES				
General Government	429,465	415,813	410,156	5,657
Protection to Persons and Property	242,017	268,608	266,388	2,220
General Health and Sanitation	46,255	52,261	52,261	
Social Services	25,000	39,490	34,357	5,133
Recreation and Culture	45,000	140,162	53,594	86,568
Roads		61,500	42,500	19,000
Bus Service	60,000	61,537	61,537	
Debt Service	426,000	425,086	424,034	1,052
Capital Projects	500,000	500,000	500,000	
Administration	365,063	504,476	502,964	1,512
Total Expenditures	2,138,800	2,468,933	2,347,791	121,142
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)				
	112,000	(23,633)	362,714	386,347
OTHER FINANCING SOURCES (USES)				
Borrowed Money	400,000	400,000	400,000	
Transfers From Other Funds			200,000	200,000
Transfers To Other Funds	(512,000)	(512,000)	(544,244)	(32,244)
Total Other Financing Sources (Uses)	(112,000)	(112,000)	55,756	167,756
Net Changes in Fund Balances				
		(135,633)	418,470	554,103
Fund Balances - Beginning		135,633	137,152	1,519
Fund Balances - Ending				
	\$ -	\$ -	\$ 555,622	\$ 555,622

BRECKINRIDGE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,309,000	\$ 1,459,000	\$ 1,771,154	\$ 312,154
Miscellaneous	3,000	3,000	1,329	(1,671)
Interest	6,000	6,000	4,722	(1,278)
Total Revenues	1,318,000	1,468,000	1,777,205	309,205
EXPENDITURES				
Roads	1,183,750	1,490,101	1,473,722	16,379
Capital Projects		31,500	31,500	
Administration	134,250	119,699	119,643	56
Total Expenditures	1,318,000	1,641,300	1,624,865	16,435
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)				
		(173,300)	152,340	325,640
OTHER FINANCING SOURCES (USES)				
Proceeds From Sale Of Vehicle		148,300	150,800	2,500
Transfers From Other Funds			150,000	150,000
Transfers To Other Funds			(100,000)	(100,000)
Total Other Financing Sources (Uses)		148,300	200,800	52,500
Net Changes in Fund Balances				
Fund Balances - Beginning		(25,000)	353,140	378,140
		25,000	25,771	771
Fund Balances - Ending	\$ -	\$ -	\$ 378,911	\$ 378,911

BRECKINRIDGE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,050,508	\$ 1,050,508	\$ 1,134,118	\$ 83,610
Charges for Services	106,000	106,000	123,143	17,143
Miscellaneous	26,000	126,000	165,902	39,902
Interest	1,397	1,397	755	(642)
Total Revenues	1,183,905	1,283,905	1,423,918	140,013
EXPENDITURES				
Protection to Persons and Property	1,024,900	1,141,228	1,130,746	10,482
Debt Service	429,305	444,305	444,304	1
Administration	241,700	210,372	209,380	992
Total Expenditures	1,695,905	1,795,905	1,784,430	11,475
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(512,000)	(512,000)	(360,512)	151,488
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	512,000	512,000	394,244	(117,756)
Transfers To Other Funds			(100,000)	(100,000)
Total Other Financing Sources (Uses)	512,000	512,000	294,244	(217,756)
Net Changes in Fund Balances			(66,268)	(66,268)
Fund Balances - Beginning			74,747	74,747
Fund Balances - Ending	\$ -	\$ -	\$ 8,479	\$ 8,479

BRECKINRIDGE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

	LGEA FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 35,000	\$ 35,000	\$ 32,735	\$ (2,265)
Miscellaneous			7	7
Interest			372	372
Total Revenues	<u>35,000</u>	<u>35,000</u>	<u>33,114</u>	<u>(1,886)</u>
EXPENDITURES				
Protection to Persons and Property	46,000	46,000	43,412	2,588
Social Services	<u>13,000</u>	<u>13,000</u>	<u>5,447</u>	<u>7,553</u>
Total Expenditures	<u>59,000</u>	<u>59,000</u>	<u>48,859</u>	<u>10,141</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(24,000)</u>	<u>(24,000)</u>	<u>(15,745)</u>	<u>8,255</u>
Net Changes in Fund Balances	(24,000)	(24,000)	(15,745)	8,255
Fund Balances - Beginning	<u>24,000</u>	<u>24,000</u>	<u>41,203</u>	<u>17,203</u>
Fund Balances - Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,458</u>	<u>\$ 25,458</u>

BRECKINRIDGE COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2004

1. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

2. Reconciliation of Budgetary Basis to Modified Cash Basis

General Fund

Expenditures:

Expenditures - Budgetary Basis	\$ 2,347,791
Less: KARP Principal Payments	(400,000)
Expenditures - Modified Cash Basis	<u>\$ 1,947,791</u>

Other Financing Sources (Uses):

Budgetary Basis	\$ 55,756
Less: KARP Proceeds	(400,000)
Modified Cash Basis	<u>\$ (344,244)</u>

THIS PAGE LEFT BLANK INTENTIONALLY

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

TICHENOR & ASSOCIATES, LLP
CERTIFIED PUBLIC ACCOUNTANTS and MANAGEMENT CONSULTANTS

304 MIDDLETOWN PARK PLACE SUITE C
LOUISVILLE, KY 40243

BUSINESS: (502) 245-0775

FAX: (502) 245-0725

E-MAIL: wtichenor@tichenorassociates.com

Honorable George E. Monarch, III, Breckinridge County Judge/Executive
Members of the Breckinridge County Fiscal Court

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Breckinridge County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated June 13, 2006, wherein we issued a qualified opinion on the business-type activities and the Breckinridge County Housing Authority, major enterprise fund. We did not audit the financial statements of the Breckinridge County Housing Authority. Other auditors whose reports have been furnished to us audited those financial statements. Breckinridge County, Kentucky prepares its financial statements in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Breckinridge County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be a reportable condition. A reportable condition involves matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that in our judgment, could adversely affect Breckinridge County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying comments and recommendations.

- The Fiscal Court Should Issue Pre-numbered Receipts For Admittance To The County Pool For Proper Reporting Of Cash Received
- The Fiscal Court Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable conditions described above are not material weaknesses.

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

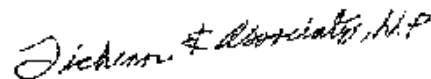
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Breckinridge County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed three instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- Annually, The Jailer Should Report To The County Treasurer On The Canteen Account
- The Fiscal Court Should Index And File Minutes Of The Fiscal Court In The Minutes Book, As Required Of The Fiscal Court Clerk
- The Breckinridge County Housing Authority's Budget Was Not Approved By The Breckinridge County Fiscal Court (County)

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Tichenor & Associates, LLP".

Tichenor & Associates, LLP

Audit fieldwork completed -
June 13, 2006

COMMENTS AND RECOMMENDATIONS

**BRECKINRIDGE COUNTY FISCAL COURT
COMMENTS AND RECOMMENDATIONS**

For The Fiscal Year Ended June 30, 2004

STATE LAW AND REGULATIONS:

Annually, The Jailer Should Report To The County Treasurer On The Canteen Account

As required by KRS 441.135, the Jailer shall keep books of accounts of all receipts and disbursements from the canteen and shall annually report to the county treasurer on the canteen account.

We recommend that the Jailer report to the county treasurer on the canteen account at fiscal year end.

County Jailer – Allen Shrewsberry's Response: None

The Fiscal Court Should Index And File Minutes Of The Fiscal Court In The Minutes Book, As Required Of The Fiscal Court Clerk

June 2004 were the last fiscal court minutes that have been indexed or filed in the fiscal court minutes book so they're available for public inspection at the county clerk's office.

We recommend the Fiscal Court require the fiscal court clerk to keep up to date minutes indexed and filed in the fiscal court minutes book so they're available for inspection at the county clerk's office.

County Judge/Executive – George E. Monarch, III Response: Recommendation will be implemented immediately.

The Breckinridge County Housing Authority's Budget Was Not Approved By The Breckinridge County Fiscal Court (County)

As the authority is a fund of the County, its budget is required to be approved by Fiscal Court. Other auditors recommended the authority submit its budget to the County for approval.

Housing Authority - Management Response: None

REPORTABLE CONDITION:

The Fiscal Court Should Issue Pre-numbered Receipts For Admittance To The County Pool For Proper Reporting Of Cash Received

Proper internal controls require issuance of pre-numbered receipts, numerical sequence, and periodically accounted for. The county pool has employees that receive cash for admittance to the pool and a receipt is not issued. The employees put money in a plastic bag and the funds are brought to the fiscal court by a volunteer at inconsistent intervals.

We recommend the Fiscal Court issue pre-numbered receipts, account for them periodically and deposit the cash on a daily basis.

County Judge/Executive – George E. Monarch, III Response: Will comply with recommendation.

**Breckinridge County Fiscal Court
Comments and Recommendations
(Continued)**

The Fiscal Court Lacks Adequate Segregation Of Duties

The Fiscal Court has a lack of adequate segregation of duties. Due to the entities diversity of official operations, small size and budget restrictions the county has limited options for establishing an adequate segregation of duties.

We recommend the following controls be implemented to mitigate this internal control weakness:

1. An independent person who lists all receipts should agree them back to the treasurer's receipts ledger.
2. An independent person should complete bank reconciliation's or review the treasurer's bank reconciliation's for accuracy. This can be documented by the person initialing the bank reconciliation.
3. An independent person should mail checks after final signature of the treasurer.

County Judge/Executive – George E. Monarch, III Response: Will comply with recommendations.

PRIOR YEAR:

In the prior year it was reported that the Breckinridge County Housing Authority's budget was not approved by the Breckinridge County Fiscal Court (County). This issue was not corrected and is a current year comment.

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

BRECKINRIDGE COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2004**

APPENDIX A

CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

BRECKINRIDGE COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2004

The Breckinridge County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended, as dictated by the applicable Kentucky Revised Statutes.

A handwritten signature in cursive script, appearing to read "George E. Monahan", written over a horizontal line.

Name

County Judge/Executive

A handwritten signature in cursive script, appearing to read "Randi K. Flood", written over a horizontal line.

Name

County Treasurer